DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

REPLY TO
ATTENTION OF

October 30, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analysis supporting privatization of the Schofield Barracks, Hawaii, wastewater utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of $2.921 million compared to the cost of continued Government ownership and operation.

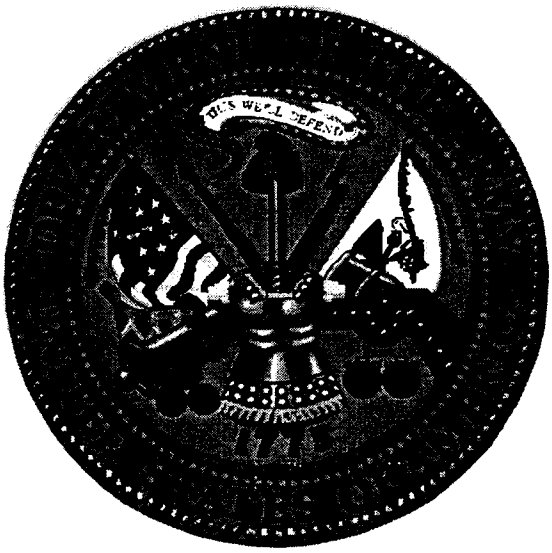
This is to inform you that the Army intends to transfer the wastewater utility system and award a fifty-year contract for utility services at Schofield Barracks to Aqua Engineers Inc. 21 days after the receipt of this letter.

Sincerely,

for William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



Department of the Army
Schofield Barracks, Hawaii
Privatization of the Wastewater System

Economic Analysis Summary

October 2003

Executive Summary: The economic analysis conducted for the wastewater utility system at Schofield Barracks, Hawaii, demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the wastewater system resulted in an estimated annual cost avoidance of $2,920,886 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: The Schofield Barracks wastewater utility system consists of three major sub-systems 1) the wastewater treatment plant located on Wheeler Army Airbase, 2) a pretreatment plant at Helemano, and 3) the wastewater collection system located within and connecting Schofield Barracks, Wheeler Army Airbase, Helemano Military Reservation, a partial section of Schofield Barracks East Range, and Field Station Kunia. Approximately 92 percent of the flows are residential while 8 percent are industrial.

The wastewater system is located in Central O'ahu, near the town of Wahiawa. The wastewater treatment plant was built in 1976. Substantial improvements were made in 1991 and 1996. In 1999 improvements upgraded the design capacity of the system from 3.2 Million Gallons per Day (MGD) to 4.2 MGD.

Each of the sub-installations that contribute to the wastewater system are within seven miles of the wastewater treatment plant. The wastewater collection sub-system consists of 536,176 linear feet of collection lines, 17 lift stations, and 1,439 manholes. The entire system has a useful life of 47 years and is maintained by a government workforce of 26.0 FTEs.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the wastewater utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the wastewater utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined the fair market value to be $15,900,100.

Procurement History:

1. The solicitation was issued 25 October, 2000
2. Proposals were received from Aqua Engineers Inc (Aqua), USFilter, and Hawaii-American Water Company on 31 August 2001.
3. Source Selection Evaluation Board evaluation generated a series of questions, which resulted in the resubmission of proposals in June 2002.
4. Discussions commenced in June 2002 and lasted until March 2003.
5. Best and Final Offers were received from all 3 proposers on 24 March 2003.

6. Hawaii-American Water Company was eliminated for technical reasons.
7. Proposals from Aqua and USFilter were deemed technically acceptable, and on 11 June 2003, Aqua was selected as the best value.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative were developed utilizing UPEAST 6.0. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value ($)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				$	%
Government Owned	50	$ 197.600 M	$ 10.722 M		
Contractor Ownership	50	$ 143.768 M	$ 7.801M	$ 2.921 M	27.2%

Conclusions and Recommendations: Privatization of the Schofield Barracks Wastewater Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Schofield Barracks Wastewater Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is wastewater utility system operation and maintenance to operate and maintain the system.

2. The privatization of the Schofield Barracks Wastewater Utility System assures future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable wastewater utility services to the sub-posts.